STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, CA 94105

File No. RH 03029826   November 6, 2003

INVITATION TO PRENOTICE PUBLIC DISCUSSIONS REGARDING
AUTOMOBILE RATING FACTORS

California Insurance Commissioner John Garamendi requests your comments about how private passenger automobile rates should be set.

DATES, LOCATIONS AND TIMES
The Prenotice Public Discussions will take place at the following dates, times, and places:

Location	Time	Date	Address
OAKLAND	6:00 p.m.	Thursday December 4, 2003	**Elihu Harris State Building Auditorium** 1515 Clay Street (between 15th & 16th St.) Oakland, Ca
VAN NUYS	6:00 p.m.	Tuesday January 13, 2004	**Marvin Braude Building** 6262 Van Nuys Blvd. (between Victory Blvd. & Oxnard St.) Van Nuys, Ca
BUENA PARK	10:00 a.m.	Thursday January 22, 2004	**City of Buena Park/ City Hall** 6650 Beach Boulevard (betwn. Commonwealth & Orangethorpe, off I-5) Buena Park, Ca
LOS ANGELES	6:00 p.m.	Thursday January 22, 2004	**Crenshaw Christian Center** Fellowship Center 7901 South Vermont Avenue (between W. Manchester & W. Florence) Los Angeles, Ca
SAN DIEGO	6:00 p.m.	Tuesday January 27, 2004	**Jacobs Center for Non-Profit Innovation** 5160 Federal Blvd., Suite A (at corner of S. Euclid Ave., next to S.D. Nat'l. Bank) San Diego, Ca

BACKGROUND
Proposition 103, an initiative approved by California voters in 1988, made numerous changes to the regulation of automobile and other insurance in California. Among other things, it provided that automobile insurance rates would be set using the three mandatory rating factors of driving safety record, annual miles driven, and years of driving experience. Other factors could be considered if the Commissioner adopted them by regulation, and the Commissioner established 16 optional factors that insurers could use to rate automobile insurance policies. These included factors such as the type of vehicle, completion of driving safety courses, the driver's gender, whether the driver is married, and location -- which is typically where the driver lives.

As required by law, the regulations also set forth the weight which must be given to each rating factor used. These four weights are: one weight for each of the three mandatory factors (driving safety record, annual miles driven, years of driving experience) and one for all the optional factors averaged together. This weighting methodology is the subject of these Prenotice Public Discussions.

The Commissioner is taking comments on this issue after having received a petition to do so from Consumers Union of US, Inc., National Council of La Raza, Southern Christian Leadership Conference of Greater Los Angeles, Spanish-Speaking Citizens' Foundation, Foundation for Taxpayer and Consumer Rights, Public Advocates, Inc., the City of Los Angeles, the City of Oakland, and the City and County of San Francisco ("Petitioners"). Petitioners expressed concern that the current weighting methodology permits territory to have a weight greater than any or all of the individual mandatory factors.

Petitioners propose changing the operation of the rating factor weighting formula to ensure that territory does not carry more weight than one of the mandatory rating factors. Petitioners suggest two alternatives: [1]

(1) a single, aggregate weight for all optional factors collectively shall be less than the weight of the third mandatory factor (years of driving experience);

(2) the individual weights of each optional factor shall be less than the weight of the third mandatory factor.

PROPOSED REGULATIONS ON AUTO RATING FACTORS
The Commissioner would like your comments on:

- the two alternatives proposed, including the attached suggested language;
- how territory affects automobile insurance rates;
- how territory should affect automobile insurance rates;

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[1] Suggested language setting forth each alternative is attached.

PROCEDURE

To the extent necessary, the Commissioner may limit an individual's time for presenting comments, as warranted. For those who plan to submit prepared comments, please send them at least six business days prior to the date of the Prenotice Public Discussion meeting you plan to attend so that the Department will have time to review them.

All written comments or documents may be sent by mail, facsimile or Microsoft Word attachment via e-mail to:

> Bryant Henley, Staff Counsel
> California Department of Insurance
> 45 Fremont Street, 21st Floor
> San Francisco, CA 94105
> Telephone: (415)538-4111
> Fax: (415)904-5490
> henleyb@insurance.ca.gov

Dated: November 6, 2003
        JOHN GARAMENDI
        Insurance Commissioner

        By _____/S/_____
          Bryant Henley
          Staff Counsel

CALIFORNIA CODE OF REGULATIONS, TITLE 10, CHAPTER 5
SUBCHAPTER 4.7, ARTICLE 3. PRIVATE PASSENGER AUTOMOBILE RATING
FACTORS.

Note: The text below reflects proposed additions (in underline) and deletions (in strikeout) to the existing Cal. Code Regs. tit. 10, § 2632.8.

§2632.8. Factor Weights.

(a) For each type of coverage, four factor weights shall be ~~evaluated. These four weights are: one weight~~ calculated, for each of the three mandatory factors listed in Section 2632.5(c)(1) through (3); and one for all of the optional factors the insurer elects to utilize in its class plan (from Section 2632.5(d), calculated in the aggregate.) ~~weights averaged together~~

(b) The data used to compute the weight shall be based on one of the following:
1. all of the subject company's currently insured vehicles;
2. the same data set used to perform the sequential analysis in Section 2632.7; or
3. the set of insured vehicles that may be published by the Department of Insurance.

(c) The weight of a rating factor is defined as follows:

For additive and multiplicative factors, the weight of Rating Factor $j = \Sigma|(R_i -- R)|*E_i*B$. For additive and multiplicative factors, compute, $|(R_i -- R)|*E_i*B$ for each category of rating factor j. The weight for rating factor j is then the sum of all these numbers (as i runs across all categories of rating factor j).

Where R_i -- Balanced relativity of the ith category of rating factor j (the superscript j is omitted, the same below)

R -- Weighted average relativity (the balanced relativities are weighted by the percent of exposure so that R should be equal to 0 for additive factors and 1 for multiplicative factors)

E_i -- Percent of exposure in the ith category of rating factor j

B --Base rate

(d) The weights of the factors, as calculated in subdivision (c), must align in decreasing order of importance as follows: driving safety record must have the most weight followed by annual miles driven followed by years of driving experience followed by the aggregate weight ~~for~~ of the individual optional factors added together. If the weights are not in the order as specified herein then the insurer must correct the relativities of the rating factors as follows:

(1) Select the rating factors to be modified.
(A) Compute the weighted average of the initial relativities for the factor over the data set selected in subdivision (b) herein;
(B) Subtract the weighted average from each initial relativity;
(C) Multiply the result of step (B) by a correction factor;
(D) Add the result of step (C) to the weighted average.

The formula for this correction is:

$$NR = (IR - WA) * CF) + WA$$
Where: NR = New Relativity
             IR = Initial Relativity
             CF = Correction Factor
             WA = Weighted Average

(2) Repeat process of subdivision (d)(1)(A) through (D) if it is necessary to correct the weight of any of the rating factors.

(3) The weight of a corrected rating factor may not exceed the corrected weight of the succeeding rating factor, in decreasing order of importance, by more than 0.25.

NOTE: Authority cited: Section 1861.02, Insurance Code; and CalFarm Insurance Company v. Deukmejian, (1989) 48 Cal.3d 805. Reference: Sections 1861.02 and 1861.05, Insurance Code.

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ALTERNATIVE 2
(INDIVIDUAL WEIGHT OF EACH OPTIONAL FACTOR)

(d) The weights of the factors, as calculated in subdivision (c), must align in decreasing order of importance as follows: driving safety record must have the most weight followed by annual miles driven followed by years of driving experience followed by ~~the~~ each individual weight ~~for the~~ of each optional factor. If the weights are not in the order as specified herein then the insurer must correct the relativities of the rating factors as follows:

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